



Presentation of Suggested Implementation Strategy for
Telecommunications Initiative
July 16, 2003

Arizona Telecommunications & Information Council (ATIC) is Arizona's recognized and authoritative nonpartisan source of information and expertise on telecommunications and information technology infrastructure for enhanced economic development and quality of life in the New Economy. It is with great interest and enthusiasm that ATIC submits comments and ideas for consideration by the State as it reviews strategies to improve telecommunications service delivery to state government and beyond.

ATIC's recommendations have at their core certain base principles to be protected through the process:

- *Technology neutrality*
- *Continuous competition*
- *Open Networks*
- *State advanced communication networks as an "anchor tenant" in underserved communities*
- *Maximize federal fund utilization (including e-rate)*
- *Driven by business requirements and a legitimate business case*
- *State focusing on its core competencies; complemented by private sector capabilities not native to State Government*
- *A phased and deliberate approach that incorporates stakeholder requirements on a continuous basis*
- *A pursuit of both infrastructure modernization and cost efficiencies*
- *GITA and ADOA operate within statutorily defined roles and responsibilities*

As detailed in the attached presentation, ATIC recommends that the State prepare both a phased implementation plan and a Request for Proposal for consideration by the Joint Committee on Capital Review in October. The implementation plan would describe the roles and responsibilities of various state agencies in executing the RFP and subsequent telecommunications privatization. GITA's role would be to oversee both the RFP execution as well as reviewing business case analyses from agencies that are potentially included in the initial scope of the project. ADOA's role would be as both the

contracting and fiscal agent working with the successful bidder.

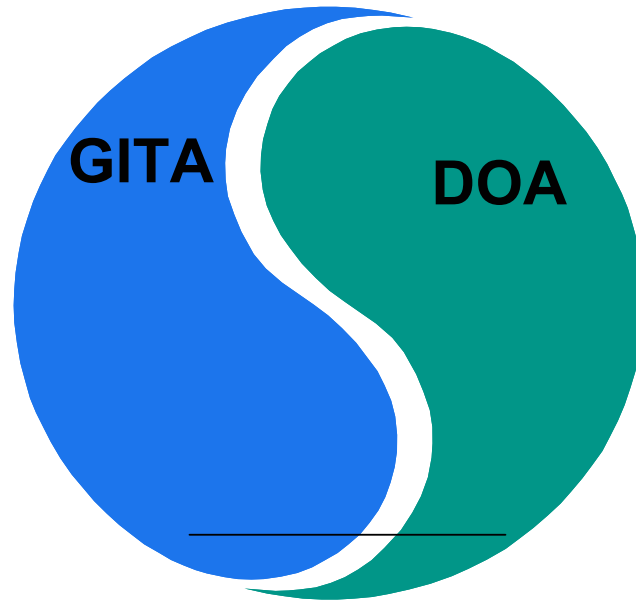
The Phase I RFP would request that successful bidders assume operational responsibility for delivering telephony service to all current ATS users (approximately 12,000 users) for a period of 5 years, with an option for renewal. The bidder would also assume title to the existing state-owned Nortel MSL 100 & 81 Switches. Further, the successful bidder would assume the role of "Contracts Manager At Risk" responsible for managing existing commodity contracts for carrier services, telecommunications equipment, integration, equipment maintenance and cabling. The CM@RISK would be paid based on revenues from competitive rates for services, with incentives included in the contract for additional payments based on shared savings derived through contract management, equipment modernization and audit activities. Such incentive payments would be periodic based on discrete projects, and would not be incorporated into the rate structure.

It is recommended that the "CM@RISK" not be a carrier services vendor as that would create certain inherent conflicts of interest that are incompatible with the intent of this bid. It is also essential that the CM@RISK implement its services and activities consistent with Enterprise Architecture standards to ensure interoperability, and scalability so that additional government and non-governmental entities can access the telecommunications infrastructure.

Future phases would be to expand the customer base for the telecommunications system, and to further introduce new enabling capabilities to support the delivery of voice, video and data applications and services for diverse communities of interest, including education, health care, environmental and resource management, social services, and public safety.

This document and associated materials will be posted for public review on the ATIC website, at www.researchedge.com/atic.

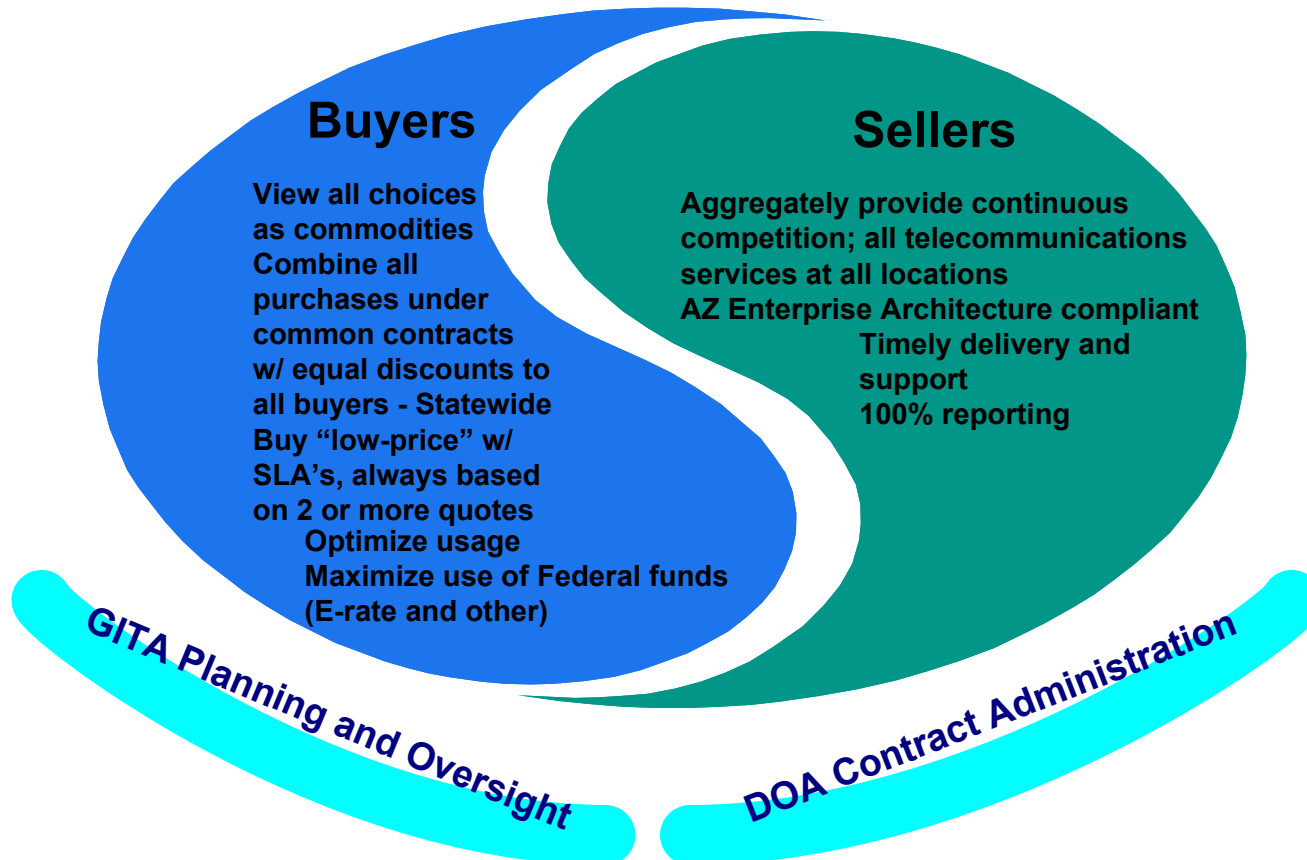
ATIC
Strawman Discussion
For the
State of Arizona
Telecommunications Contracts Manager



What we have learned?

Operationally

**Core Costs can be
Optimized when**

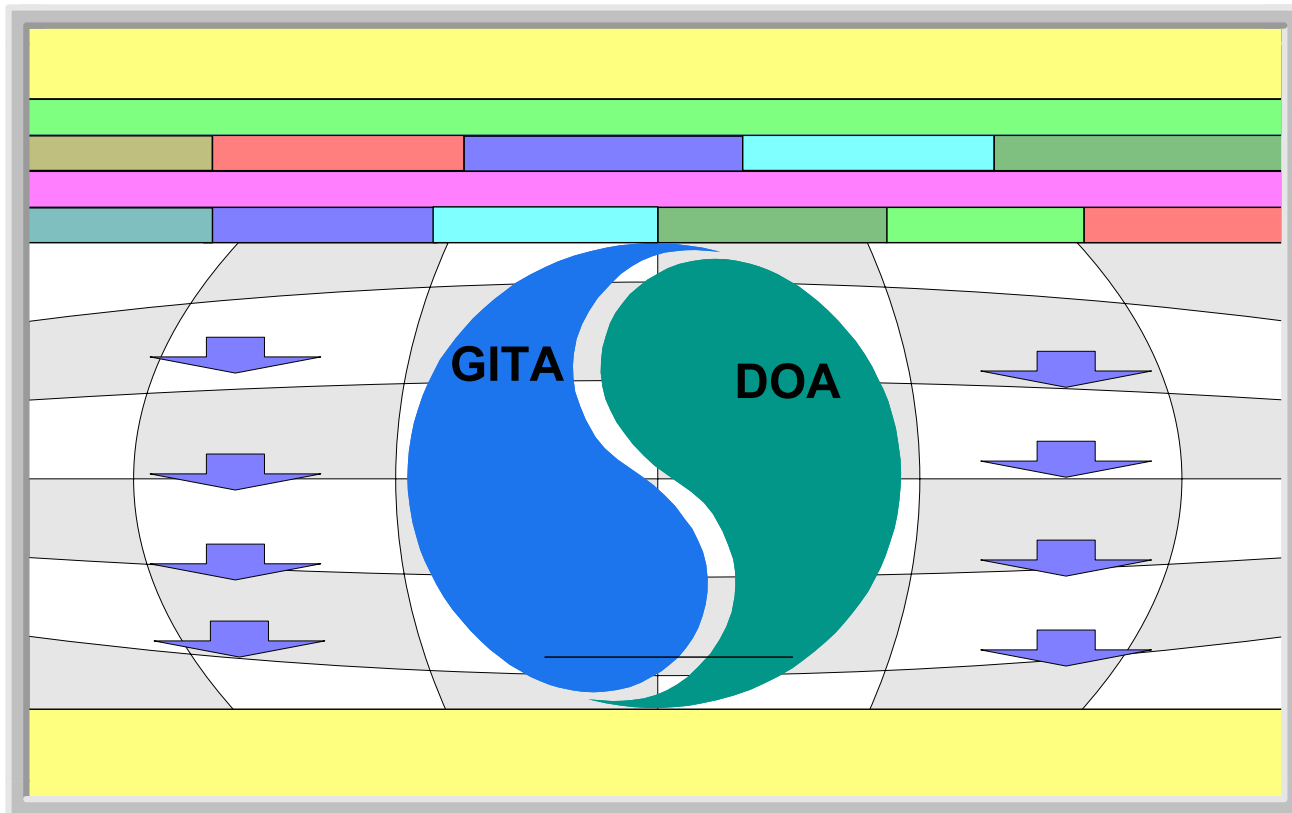


What have we Learned?

Business Needs Drive Technology

AZ Public Sector Business Requirements

Telecommunication Services Requirements



What have we Learned?

Potential Savings

- Carrier Services
 - Low price provider \$5-6M/year
 - Billing errors \$2-3M/year
- Excess ATS overhead \$2-3M/year
- **Totals** **\$9-11M/year**

The situation fits the
Gain-sharing model

Where are we going?

Leader's Intent Statement

(Full wording)

- House Bill 2533, Section 101:
 - A. On or before October 31, 2003, the government information technology agency, in consultation with the department of administration, shall prepare and submit to the joint committee on capital review for review an actionable request for proposals to privatize telecommunications services. The request for proposals shall have received a minimum of conditional approval by the information technology authorization committee.
 - B. The department of administration shall provide comments on the final draft of the request for proposals to the joint committee on capital review on or before October 31, 2003.
 - C. The request for proposals shall provide for the telecommunications requirements of state agencies and branch offices of state agencies regardless of location, excluding state universities and community colleges. The request for proposals shall require that all responses leverage network equipment that is already procured by state agencies. The request for proposals shall provide for a scalable, centralized, statewide, voice, video and data converged solution pursuant to the government information technology agency target architecture that will streamline state agency communications and enable other services such as state government N11 abbreviated dialing.
 - D. Any contracts that result from the request for proposals shall be implemented under the supervision of the department of administration.
 - E. The department of administration shall issue the request for proposals within ten business days after the review by the joint committee on capital review.
 - F. Contingent on approval of the information technology authorization committee, the department of administration shall award a contract or contracts within one hundred twenty days after the issuance of the request for proposals.
 - G. At least ten days before the department of administration enters into a contract or contracts that result from the request for proposals, the director of the department of administration shall submit the provisions of the contract or contracts for review by the joint committee on capital review in executive session. The materials submitted by the department of administration shall provide an analysis of the short-term and long-term annual capital and operating costs that would result from the contracts. The department of administration shall also include a comparison of the architecture and funding of the current Arizona telecommunications system and the telecommunications system that would result from acceptance of the contract or contracts and shall provide an analysis of the compatibility of the contracted system with current telecommunications assets. Information provided in executive session shall remain confidential until the contract award is made in compliance with title 41, chapter 23, Arizona Revised Statutes.
 - H. The government information technology agency and the department of administration shall report monthly, beginning on the effective date of this act, to the joint committee on capital review on the status of activities and expenditures related to this section.

Leader's Intent

- On or before October 31, 2003
 - GITA shall submit an actionable RFP to privatize telecommunications services
 - With conditional approval by the ITAC
 - With ADOA comments
- Request(s) for proposals shall
 - provide for the telecommunications requirements of state agencies regardless of location
 - exclude state universities and community colleges
 - require that all responses leverage existing network equipment
 - provide for a scalable, centralized, statewide, voice, video and data converged solution
 - pursuant to the GITA target architecture
 - streamlines state agency communications and
 - enables other services such as state government N11 abbreviated dialing
- Contracts shall be implemented under the supervision of ADOA
- Contingent on approval of the ITAC, ADOA shall award a contract or contracts within 120 days after the issuance of the request for proposals
- GITA and ADOA shall report monthly, beginning on the effective date of this act, to the JCCR on the status of activities and expenditures related to this section

How to Achieve Leader's Intent -A Phased Approach

- Phase 1 (Oct 2003 RFP)
 - Leverage existing commodity telecommunications contracts
 - Establish a Contractors Manager @ Risk (CM@Risk)
 - Trade ATS switches for telephony services
 - Instill buyer discipline, buy lowest cost carrier services and telecom equipment
 - Audit invoices
 - Transition to Enterprise Architecture compliant converged services within the first 18 months
- Phase 2 (2005-06 RFP)
 - Expand the scope of Phase -1 activities to include:
 - Desktop managed services
 - Telecommunications-based applications
 - Establish automated auditing and feedback means
 - Consolidate and renew underlying commodity contracts
- Phase 3 (2007-08 RFP)
 - Re-set all “CM@Risk” style contractors to a level playing field – based on the anomalies of initial ATS switch outsourcing being fully absorbed during phases 1 & 2
 - Exploit opportunities to achieve continuous competition
 - Strengthen automated auditing and feedback means based on results in phases 1 & 2
 - Renew and optimize underlying commodity and skill-based integration contracts

How to Achieve Leader's Intent

-A Phased Roadmap

- Phase 1
 - Leverage existing commodity and skill-based contracts
 - Establish “Contracts Manager@Risk”
 - Trade ATS switches for telephony services
 - Gain-share with the General Fund
 - Use Agency PIJ evaluation process
 - Instill buyer discipline
 - Audit invoices

How to Achieve Leader's Intent

-A Phased Roadmap

- Phase - 2;
 - Expand the scope of Phase -1 activities and potentially award to additional “CM@Risk” style contractor(s) to include:
 - Desktop managed services
 - Telecommunications-based applications
 - Establish automated auditing and feedback means
 - Continuously audit all carrier service billings
 - Augment existing processes for optimizing deployment and use of telecommunications services
 - Consolidate and renew underlying contracts
 - Statewide broadband services
 - Carrier services including managed services
 - Hardware/software
 - Skill-based integration services

How to Achieve Leader's Intent

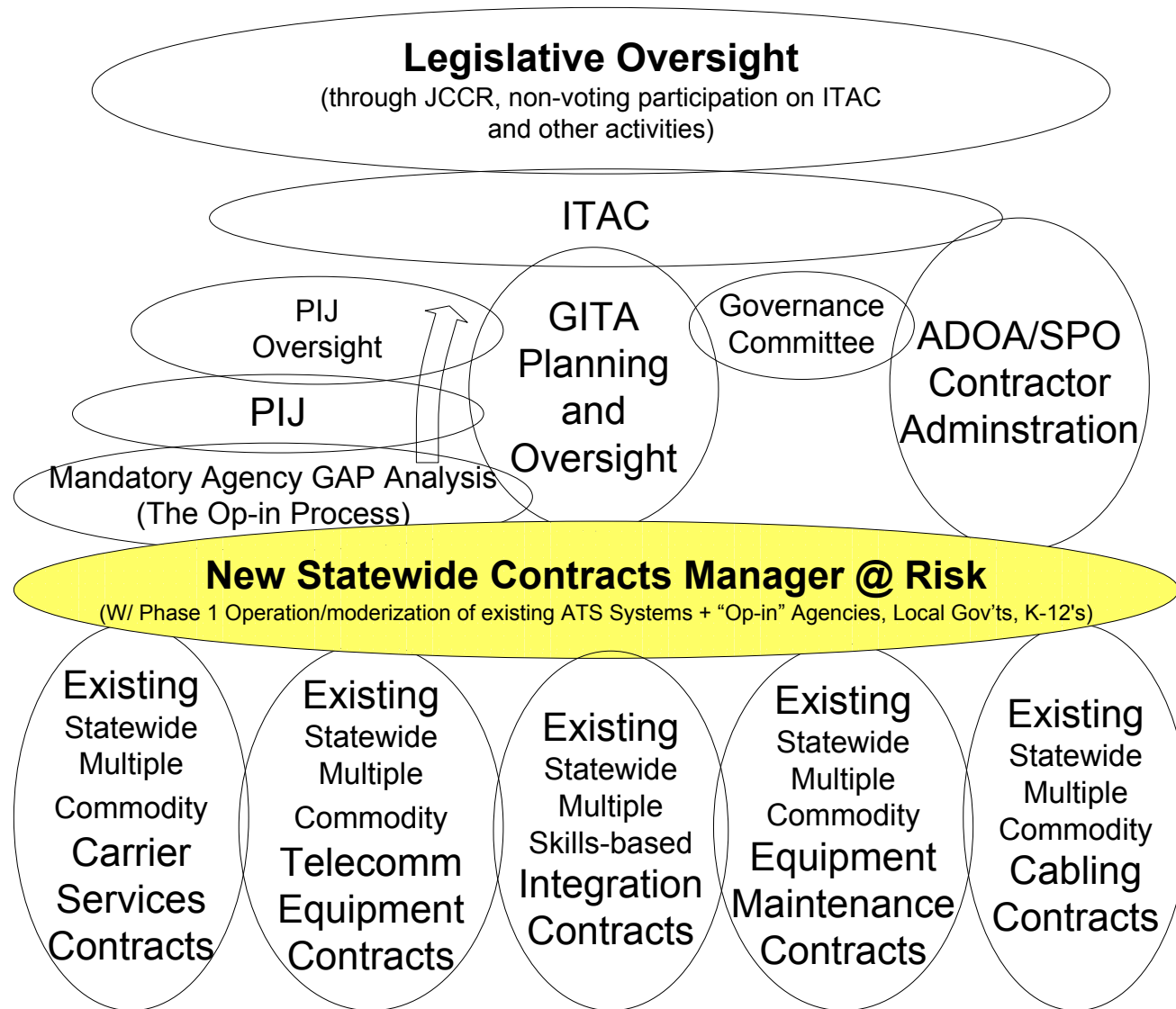
-A Phased Roadmap

- Phase - 3;
 - Re-set all “CM@Risk” style contractors to a level playing field – based on the anomalies of initial ATS switch outsourcing being fully absorbed during phases 1 & 2
 - Exploit opportunities to achieve continuous competition
 - Strengthen automated auditing and feedback means based on results in phases 1 & 2
 - Renew and optimize underlying commodity and skill-based contracts

Getting Started - Phase 1

- Phase -1; Establish a single non-exclusive “CM@Risk” style contractor which
 - Must utilize existing commodity contracts (carrier services, equipment, maintenance and cabling)
 - Always obtain multiple quotes
 - Always buy “low price”
 - Always monitor and report SLA violations
 - Must take ownership and operate existing MSL100 phone switch
 - Responsible for dial-tone to current ATS customers
 - Responsible for all operational costs
 - Must show (via PIJ process) justification for all expansion costs/rates
 - May transition to alternative delivery technologies
 - Includes lease/maintenance of associated/needed Mall infrastructure for contract duration
 - Must utilize underlying commodity contracts for detailed billings
 - Must offer employment to existing MSL100 operations employees
 - Must serve agency needs, as requested
 - Must serve all locations as requested
 - Must provide all telecommunications services requested
 - May serve all other AZ public sector needs as requested
 - With incentives to reduce total costs

Relational Diagram



What's in the Phase 1 Base-Scope

- Provide ATS User telephony needs for the term of the Phase-1 Contract
 - 12,000 telephony desktop/call center phones
 - Existing Nortel MSL 100 & 81 Switches
 - Leasing of connecting copper and fiber
- Re-establishment of current carrier services statewide
 - Select & deploy lowest cost carrier on Contract
 - Gain-share the savings with the State General Fund
- Audit carrier service invoices
 - Gain-share the savings with the State General Fund

What's in the Phase 1 Add-alternate Scope

- Telecommunications optimization
 - Per the PIJ process
 - Consolidation
 - Convergence
 - Enterprise architecture compliance
 - Gain-share the savings with the State General Fund

What are the Tests for Fairness?

- Must all agency telecommunications personnel be transitioned to the private sector in Phase 1?
- Must all State owned telecommunications equipment be privatized in Phase 1